

News

Contracting Out

DOD Adopts Strategic Sourcing Approach As Adjunct to Public-Private Competition

The Defense Department, hard pressed to make good on its pledge to save \$11.2 billion by obtaining more commercial-type support services from the private sector, has quietly given the go-ahead to include a new, broader approach: reengineering some functions and eliminating others altogether.

In an April 3 internal memorandum, Under Secretary of Defense for Acquisition, Technology, and Logistics Jacques S. Gansler called for a "more comprehensive" strategic sourcing approach as an adjunct to—not a replacement for—the existing competitive sourcing program under Office of Management and Budget Circular A-76.

According to one DOD source, strategic sourcing could triple—from 300,000 to 900,000—the number of in-house jobs that are reviewed for possible outsourcing.

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UNDER SECRETARY OF DEFENSE FOR ACQUISITION,
TECHNOLOGY, AND LOGISTICS JACQUES S. GANSLER

The goal is to determine whether processes can be eliminated, improved, or streamlined. However, competition must remain an integral part of this overall approach, Gansler said.

In response to concerns that DOD may be backing off its effort to compete more than 230,000 activities as recommended by the Defense Reform Initiative, Gansler said that the strategic sourcing program should not be interpreted as "avoidance or replacement" of the Circular A-76 process and its focus on fair competitions.

In fact, strategic sourcing could eliminate the fencing off of whole functions or activities from competition, Gansler said.

Strategic sourcing will maximize effectiveness, efficiencies, and savings throughout the department and help DOD meet or exceed its competitive sourcing goals, Gansler said.

The strategic sourcing concept was first proposed by the Navy, which realized that it could not meet its share of the overall competitive sourcing savings goal through competitions alone (72 FCR 675). The Navy got the go-ahead for strategic sourcing, but DOD officials were initially skeptical about the wisdom and the efficacy of extending it DOD-wide. According to a DOD official, DOD was persuaded to allow strategic sourcing throughout the department because it is not sure whether it can meet its goal of saving \$11.2 billion between fiscal years 1997 and 2005 by means of contracting out commercial activities alone.

Randall A. Yim, the deputy under secretary of defense for installations, is in charge of the strategic sourcing program as well as the competitive sourcing program.

Program Not Mandatory. DOD military departments and components *may* use strategic sourcing to meet or exceed their competitive sourcing goals, Gansler's guidance said.

If any DOD component decides to use strategic sourcing, a "rigorous" accounting of the savings achieved will be required.

Strategic sourcing initiatives must be auditable and must distinguish A-76 savings from strategic sourcing savings, he said.

Gansler Wants Consistent Approach. To ensure a "consistent approach" for both the strategic sourcing and competitive sourcing programs, DOD will update DOD Directive 4100.15, Commercial Activities Program, and DOD Instruction 4100.33, Commercial Activities Program Procedures.

In addition, DOD is developing a directive and instructions for the strategic sourcing program.

DOD also has taken steps to address concerns with how it implements the A-76 cost comparisons. The steps include developing manuals for costing and performance measurement for competitive and strategic sourcing.

As an interim measure, the department issued guidance for selected aspects of the commercial activities program.

The interim guidance, which is effective immediately, includes:

- strategic sourcing program,
- issuing solicitations when performing the A-76 cost comparison process,
- source selection evaluation board when performing the A-76 cost comparison process,
- costing for A-76,

- administrative appeal process after performing an A-76 cost comparison,
- waivers to the A-76 process, and
- performance tracking of completed initiatives—strategic sourcing and competitive sourcing programs.

Union's Reaction. Wiley Pearson of the American Federation of Government Employees told FCR May 5 that on the positive side, the idea of using reinvention and other methods beyond outsourcing and privatization to achieve savings is a plus.

However, the union is "justifiably" uneasy about the fact that this could be merely a fast means of getting rid of more government employees, he said.

AFGE is negotiating with DOD to determine the appropriate role of the union in developing and applying this reinvention practice, Pearson said.

Commercial Items

Navy Launches New Contracting Strategy For 'Commercial Ideas,' Not End Items

The Navy's top acquisition official April 24 announced a new strategy for acquiring commercial solutions to Navy requirements.

The strategy will allow the Navy to contract for "commercial ideas" rather than predefined products or services, H. Lee Buchanan, assistant secretary of the Navy for research, development, and acquisition explained in an internal memorandum.

The two-phased acquisition approach uses a blend of the broad agency announcement (BAA) concept, industry commercial best practices, and contracting methods outlined in Part 12 of the Federal Acquisition Regulation:

- (1) commercial area announcement (CAA) and
- (2) request for commercial offering (RCO).

'Revolutionary Strategy.' "This revolutionary strategy is a hybrid of existing public and commercial practices," according to the document.

"This approach shifts the fulcrum of competition from that of the end item to that of an idea," and is designed to take maximum advantage of the acquisition of commercial items, it says.

CAA: A Form of Market Research. The CAA will serve as a form of market research within business sectors, and will encourage industry to submit diverse and innovative approaches for satisfying a generic requirement within a business sector.

In the CAA phase, there is no commitment to contract. Rather, the CAA is a tool for industry to inform the Navy, in broad terms, of the possibilities for satisfying a requirement.

The CAA will be published in various print media—including the *Wall Street Journal* and *USA Today*—as well as the *Commerce Business Daily*.

The Navy will also conduct a "Business Opportunities Day" to disseminate its requirements and clarify its objectives with industry.

RCO: Response to Objectives. After reviewing input received during the CAA phase, the Navy will issue a two-to-three-page RCO providing a statement of objectives.

In responding to the RCO, a company would detail how its concepts and ideas will meet and/or exceed the performance-based objectives.

"Industry's commercial offerings are to identify their break-through strategies, proprietary aspects, and detailed processes for achieving their specific unique ideas," according to the Navy document. Also, they must specifically identify small business alliances/partnering arrangements.

All of Phase II activities will be conducted by full and open competition.

By their nature, resulting contracts will be fixed price or fixed price incentive agreements.

The Navy will issue guidance to contracting officers on implementing the new strategy.

By MARTHA A. MATTHEWS

Past Performance

OFPP Aims to Improve Contractors' Current Performance Through Ongoing Evaluation

The Office of Federal Procurement Policy is updating its best practices guidance to emphasize that evaluating contractor performance while a contract is ongoing not only provides information for use in future source selections, but also can help contractors improve performance under current contracts.

Recording performance evaluations periodically and discussing the results with contractors while a contract is underway is "a powerful motivator for contractors to maintain high quality performance or improve inadequate performance before the next reporting cycle," OFPP said in a draft.

Increasing attention to contractor performance on in-process contracts and insuring that past performance data is readily available for source selection teams allows contracting agencies to reap two benefits, it explained:

- (1) better current performance because of the active dialog between the contractor and the government; and
- (2) better ability to select high-quality contractors for new contracts, because contractors know the evaluations will be used in future award decisions.

The draft has been circulated among federal agencies and contractor groups, and should be finalized by the end of June, an OFPP official told FCR May 2.

OFPP hopes that the final version will provide useful examples of techniques for recording and using contractor performance to better evaluate contracts and to enhance the source selection process, said OFPP Administrator Deidre Lee. It is not mandatory regulatory guidance.

Contractor Group Welcomes Six-Month Evaluations. A defense industry group said in April 24 comments on the draft that it was "pleased" by the emphasis on "open communications with contractors." In particular, the Council of Defense and Space Industry Associations said it welcomed OFPP's recommendation to evaluate and discuss contractor performance every six months, noting that the Federal Acquisition Regulation provides no such guidance.

Among its limited specific comments, CODSIA urged that the final guidance: